

MUSIC TO THEIR EARS: LICENSING FIRM IDENTIFIES \$11M IN UNPAID ROYALTIES



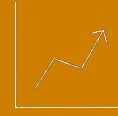
Challenge

A music industry licensing management firm needed to verify the accuracy of self-reported music performance statements provided by various licensees in order to collect and distribute royalties to the content owners (artists and musicians).



Solution

Armanino's royalty experts examined the royalty statements provided by licensees. Conducting reasonableness testing of the underlying methodologies for calculating usage and using publicly available data to form our own assumptions, we recalculated the actual number of performances during the period.



Result

The company successfully identified more than \$11M in unpaid royalties and interest penalties from licensees.

CLIENT CHALLENGE

When content is performed for the public, the content creator/rights owner is due to earn royalties. The company is a nonprofit collective rights management organization designated to collect and distribute digital performance royalties from statutory licenses. A statutory license makes it easy for some businesses/licensees to pay for the content used as part of day-to-day operations, so they do not need to negotiate a deal with every individual rights owner.

THE RISK ISSUE

The company relies on licensees to self-report usage, and thus self-report royalties owed. They have no visibility into the accuracy of the usage statements. Further, licensees have an incentive to underreport usage or to liberally claim exclusions in order to drive down their royalty payments.

OUR SOLUTION

Armanino has a team of experts skilled in the examination of usage statements and the calculation of royalty payments. We are also well versed in the applicable regulations governing statutory licenses. With this knowledge, we conducted a series of royalty assessments targeting high-risk licensees.

We performed a detailed review of each licensee's self-reported usage statements, probing for unexplainable gaps in the data, and conducted process interviews with licensee personnel to understand the methodology used to generate the reported usage numbers. This involved identifying the licensee's process for estimated usage and assessing their compliance when excluding usage from being reported. We reconciled the methodology against other publicly available data sources and our own understanding from previous assessments and recalculated the licensee's actual usage during the period, noting any underreporting.

To enable the company to recoup the underreported fees and penalties, Armanino's experts had to technically confirm:

- The licensee's methodology for calculating performances was accurate
- The licensee was appropriately excluding performances from reporting
- The resultant underreporting if licensee was in error in either situation
- The financial impact of any underreporting

The Result

After performing a limited number of assessments, Armanino was able to identify hundreds of millions of instances where usage was not appropriately self-reported by the licensee. This underreporting amounted to more than \$11M in royalties and interest penalties owed to the management firm by the licensees. The licensees have also amended their methodology to address weaknesses identified by Armanino, which will increase reporting accuracy (and decrease forgone royalties) going forward.

About Armanino

Armanino provides an integrated set of accounting services—audit, tax, consulting and technology solutions—to a wide range of organizations operating both in the US and globally. You can count on Armanino to think strategically, to provide the sound insights that lead to positive action. We address not just your compliance issues, but your underlying business challenges, as well—assessing opportunities, weighing risks, and exploring the practical implications of both your short- and long-term decisions. When you work with us, we give you options that are fully aligned with your business strategy. If you need to do more with less, we will implement the technology to automate your business processes. If it's financial, we can show you proven benchmarks and best practices that can add value company-wide. If the issue is operational, we'll consult with your people about workflow efficiencies. If it's compliance, we'll ensure you meet the requirements and proactively plan to take full advantage of the changes at hand. At every stage in your company's lifecycle, we'll help you find the right balance of people, processes, and technology.

Our Experts



Kevin Guy
Managing Director, Armanino Advisory LLC
Kevin.Guy@armanino.com | (972) 590-5270



Amber O'Malley
Director, Armanino Advisory LLC
Amber.OMalley@armanino.com | (415) 276-4464



Chris Spartz
Manager, Armanino Advisory LLC
Chris.Spartz@armanino.com | (972) 590-5457

